



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

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July 27, 2016

Rhonda Hamm-Niebruegge, Director of Airports
Lambert - St. Louis International Airport
PO Box 10212
St. Louis, MO 63145

RE: Concession Agreement Review – Budget Rent A Car, AL #073
(Project #2015-APC03) (Reissued)

Dear Ms. Hamm-Niebruegge:

The Comptroller's Internal Audit Section has completed the contract compliance review of the On-Airport Passenger Vehicle Rental Concession Agreement with Budget Rent A Car Systems, Inc. for the passenger vehicle rental services at Lambert -St. Louis International Airport. Enclosed is the report covering the period January 1, 2010, through December 31, 2014. A description of the scope of our work is included in the report.

The initial fieldwork completion date was April 5, 2016, and a closing meeting was held on April 20, 2016. We extended our fieldwork to May 2, 2016, in order to review additional information received from the Concessionaire after the exit conference. Airport management revised their initial management responses to the observations and recommendations noted in the report. As a result, the report is being reissued to incorporate the revised management responses, which were received on July 6, 2016.

This Review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3446

Sincerely,

Mohammad H. Adil, CPA, CMGA
Internal Audit Supervisor

Enclosure

CC: Antonio Strong, CPA, MBA, Deputy Director, Airport Finance and Administration
Robert Salarano, Manager, Airport Properties
James Fox, CPA, Auditor, Airport Finance and Accounting
Leonard E. Bell, Jr., Internal Auditor, Internal Audit Section, Comptroller's Office





CITY OF ST. LOUIS

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT

BUDGET RENT A CAR SYSTEMS, INC. (AL #073)

**ON-AIRPORT PASSENGER VEHICLE RENTAL
CONCESSION AGREEMENT REVIEW**

JANUARY 1, 2010 THROUGH DECEMBER 31, 2014

PROJECT #2015-APC03

**DATE ISSUED: JULY 27, 2016
(REISSUED)**

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
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SUMMARY

Background

The On-Airport Passenger Vehicle Rental Concession Agreement (the Agreement) was awarded to Budget Rent A Car Systems, Inc. (Concessionaire) on November 9, 2009, for a period of five-years, January 1, 2010, through December 31, 2014. The Agreement was approved by the City through the Board of Public Service (BPS) and the Director of Airports. The purpose of the Agreement was to provide passenger vehicle rental services at Lambert - St. Louis International Airport (the Airport).

The Agreement provided for the Concessionaire to pay the City a concession fee:

- Equal to the greater of 10% of the gross receipts from the Airport passenger vehicle rentals.

----or----

- The Minimum Annual Guarantees (MAG) totaling \$4,548,000 for the five-year term of the Agreement.

The total gross receipts for the period of the Agreement amounted to \$66,711,804 and the Airport received concession fees totaling \$6,671,180.

Purpose

The purpose of the review was to determine if the Concessionaire complied with the terms, conditions and various provisions of the Agreement.

Scope and Methodology

Inquiries were made and tests were performed regarding the Concessionaire's compliance with the terms, conditions and various provisions of the Agreement. The scope of the review was January 1, 2010, through December 31, 2014.

Conclusion

The Concessionaire did not fully comply with the terms, conditions and various provisions of the Agreement.

Current Observations

The opportunity exists for the Airport to ensure the Concessionaire's compliance with the agreement. The following are the observations resulting from the review:

1. Rental concession fees not paid to the Airport
2. Current insurance certificates not on file

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SUMMARY

These observations are discussed in more detail in the *Detailed Observations and Recommendations* section of this report

Management Response

An exit conference was conducted with the Airport on April 20, 2016. In attendance from the Airport were:

- Manager, Airport Properties
- Property Specialist, Airport Properties
- Deputy Director, Airport Finance and Administration
- Auditor, Airport Finance and Administration

Concessionaire was represented by:

- Senior Accounting Manager
- Concession Manager

Internal Audit was represented by:

- Internal Audit Supervisor
- Internal Auditor

The report observations and recommendations were discussed in detail at the exit conference. The management of the Airport and Concessionaire provided the written responses to the Internal Audit on July 6, 2016, which have been incorporated in this report.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Rental Concession Fees Not Paid To The Airport

Per Article one of the Agreement, a vehicle rental by an individual whose place of residence is in the Metropolitan St. Louis Region, is classified as a local agreement. The local agreements are not subject to a concession fee. The ZIP codes defining the Metropolitan St. Louis Region are listed in Exhibit "C" of the Agreement.

We reviewed fifty-two (52) rental agreements. Thirty-five (35) of these agreements were classified by the Concessionaire as local. However, we noted that four (4), or 11.4%, of these agreements, were either incorrectly classified as local (based on their ZIP codes), or we could not determine the correct classification due to failure to note customer address in the agreement. The four (4) exceptions noted would have been subject to concession fees of \$259 as follows:

Agreement #	Exception	Rental	Concession Fee**
U923016441	Out of state address	\$592.30	\$59.23
U140045776	Out of state address	\$278.60	\$27.86
U140029601	Out of state address	\$904.63	\$90.46
U340145853	Incomplete agreement*	\$814.49	\$81.45
Totals		\$2,590.02	\$259.00

* Customer address was not available on the agreement.

** Concession fee is 10% of the rental.

The total concession fees for the agreement incorrectly classified as local may be significantly higher if all pertaining to the review period were reviewed.

Recommendation

We recommend that the Airport:

- Require the concessionaire set up a system of internal control to ensure that all local rental agreements are fully completed to allow for proper classification of local agreements.
- Ensure the Concessionaire pay concession fees and the appropriate service charges (per Agreement) on the above four (4) rental agreements.
- Verify correct classifications of all local rental agreements for the review period to identify any additional potential cost recovery.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

Concessionaire Response

Budget agrees to work with our IT department and our local management to ensure that all local agreements are fully completed to allow for proper qualification of the local agreements. We will also remit the \$259 relating to the four (4) rental agreements noted on the finding.

Management Response (Revised)

Management will send a Notice to Budget reaffirming the concessionaire's responsibility to abide by the terms and conditions set forth in the concession agreement, and to properly classify and account for all Gross Receipts received under this concession agreement. Improperly classifying rental agreements as local and thus avoiding 10% Percentage Fee is not acceptable and will not be tolerated.

Further, due to the significant over 11.4% error rate noted by the City of St. Louis Internal Audit, we are expanding our test population to review all rental agreements during two random months to determine if the error rate is consistent with the auditor's findings or significantly higher. We will extrapolate this error rate over the five-year term of the agreement to determine the amount of concession fees and service charges due to the Airport.

2. Current Insurance Certificates Not On File

Article IX, Section 901, of the Agreement, requires that at least five (5) days prior to the expiration of the required insurance policies the Concessionaire shall submit to the Airport a certificate showing that all such insurance coverage has been renewed.

The Concessionaire's insurance policies required under the contract and maintained on file at the Airport expired on July 14, 2014. However, upon request by the Auditor, the Concessionaire provided the current certificates showing that all such coverage has been renewed.

Recommendation

We recommend that the Airport set up a system of internal controls to ensure that at least five (5) days prior to the expiration of current insurance policies the Concessionaire submit a certificate confirming the renewal of all such policies.

Concessionaire Response

Budget agrees to comply with the recommendation. Five (5) days prior to the expiration of the current insurance policy, we will provide the Airport with the current certification showing updated coverage.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

Management Response (Revised)

Management has set up an internal system for the administrative staff to run a report at the beginning of each month which shows insurance certificates that are about to expire. Staff will send a reminder to the concessionaire about this expiration and request updated certificates. If updated certificates are not received timely, the Properties Specialist assigned to the contract will follow up with the Concessionaire's management.